

BULGARIA

RESULTS REVIEW

AND

RESOURCE REQUEST

(R4)

FY 1997

MARCH 1997

**UNITED STATES
AGENCY FOR
INTERNATIONAL
DEVELOPMENT**

SOFIA, BULGARIA

**RESULTS REVIEW
AND
RESOURCE REQUEST**

FY 1997

(FOR THE PERIOD OCTOBER 1, 1997 - SEPTEMBER 30, 1999)

MARCH 1997

TABLE OF CONTENTS

Part I:	STRATEGY FOR A CHANGING ENVIRONMENT	3
Part II:	RESULTS REPORTING BY STRATEGIC OBJECTIVES	
SO 1.1:	Increased Transfer of State-Owned Assets to the Private Sector	6
SO 1.3:	Increased Growth of Private Firms in a Competitive Environment	9
SO 2.1:	Increased, Better-Informed Citizens Participation in Public Policy Decision Making	13
SO 2.3:	More Effective and Accountable Local Government	16
SO 3.2:	Improved Fiscal Sustainability of Social Benefits and Services	21
SO 4.1:	Special Initiatives	23
SO 4.2:	Cross Cutting Programs	25
Part III:	MANAGEMENT CONTRACT	
A.	Status of the Management Contract	26
B.	Issues and Concerns	27
Part IV:	RESOURCE REQUEST	
Section 1:	SO Budget Tables and Narrative	28
Section 2:	Prioritization of Strategic Objectives	31
Section 3:	Field Support Required from USAID/Washington Offices	32
Section 4:	Workforce and Operating Expenses	33
Section 5:	Environmental Compliance and Issues	34
ANNEX 1: Global Field Support Table		
ANNEX 2: SO Budget Tables		
ANNEX 3: Workforce and Operating Expenses Budget Tables		

USAID/BULGARIA
RESULTS REVIEW AND RESOURCE REQUEST
Part I: STRATEGY FOR A CHANGING ENVIRONMENT

Economic conditions in Bulgaria deteriorated rapidly in 1996: the currency collapsed from 70 to 500 lev/dollar at year-end, and further to 2500 lev/dollar in February 1997. The inflation rate for 1996 soared above 300 percent, with further hikes of almost 50% and at least 75% expected in January and February, respectively. Hyperinflation has consumed personal savings. Many vulnerable groups, such as pensioners and others on fixed incomes, have been particularly hard hit. At February exchange rates, the average pensioner received less than US\$5/month, whereas bread cost as much as 50¢/loaf and eggs cost nearly \$1/dozen. With average wages hovering just above \$10/month, and increasing unemployment, the World Bank estimated that more than 90 percent of the population fell below the poverty line by February, 1997. The prospective closure, restructuring or privatization of state enterprises will boost joblessness in 1997 to between 480,000 and 800,000 persons, up to 25% of the work force. Conditions are almost certain to deteriorate further through 1997, and probably through 1998.

The source of Bulgaria's economic collapse lies in flawed policies, and weak leadership which has consistently failed to address the multiple crises in banking and industry. As a result of imprudent lending practices, bank balance sheets deteriorated and chronic reliance on central support drew heavily on the Bulgaria National Bank. Non-recoverable loans to state-owned enterprises account for most of the problem. In industry, pervasive inefficiencies dragged GDP 10% lower in 1996 and threaten to continue to dampen output for the next several years, absent strong remedial action. Bulgaria's foreign debt will continue to consume foreign exchange which now hovers at approximately \$400 million -- approximately 1-2 months import cover. The possibility of a default on the \$1.3 billion due in calendar 1997 is real, though the impact is impossible to estimate, and will depend upon the response of multilateral financial institutions.

In early 1997, formerly quiescent Bulgarians participated in thirty days of demonstrations, protesting against economic conditions, and demanding pre-term parliamentary elections. The extensive outburst of public opinion was unprecedented in modern Bulgarian history where people across the political and economic spectrum took unified action, forcing politicians to recognize their accountability to the people. The people's efforts succeeded in removing the Socialist Party from power, cutting short the Party's four-year parliamentary term by 22 months. A reform-oriented caretaker government has been named by President Stoyanov to serve until the April 19 parliamentary elections. The caretaker team is authorized to conduct negotiations with the IFIs and has pledged rapid action to deal with urgent economic problems and crime. There is also an opportunity during the period before an elected government takes office for grass roots organizations to develop their legislative agendas and to strengthen their ability to work together at the local level for economic and social change.

With an economy in free-fall, and the probability of a new government more amenable to reform, USAID/Bulgaria has moved quickly to adjust its portfolio to respond to new conditions. New actions/approaches are planned based upon the assumption that the economic crisis will continue through 1997 with

increasing unemployment and high inflation most of the year, but with a new reform-minded government willing to pursue aggressively necessary structural reform. USAID/Bulgaria actions include:

- (1) carrying out an emergency pharmaceutical supply program with \$2 million, and providing \$400,000 to the Red Cross for other emergency humanitarian relief in Bulgaria;
- (2) supporting banking sector reform and restructuring in conjunction with the World Bank and the International Monetary Fund (IMF);
- (3) targeting FLAG efforts on economic areas of potential strength such as export-oriented firms, and areas that complement the reform agenda including bank restructuring;
- (4) pursuing the findings of the Implementing Policy Change paper on improving the policy and legal environment for small and medium-sized enterprise (SME) growth by supporting efforts of SME associations to implement the specified reforms;
- (5) opening the Democracy Network program to projects supporting economic growth as well as continuing with social safety net and democracy support;
- (6) launching the new Presidential Scholarship program for economic reform training under the Ron Brown Fellowship program;
- (7) adding a new "democracy component" and direct grants to the LGI program to focus on community outreach programs and public/private partnerships;
- (8) providing a special assistance package to the new National Municipal Association to help them develop their lobbying efforts; and
- (9) beginning the "Quick Start" labor retraining program with DOL and local training centers and businesses.

Although there has been significant change in Bulgaria's economic and political environment over the past year, USAID/Bulgaria's basic strategy remains valid despite the fine-tuning of priorities within the portfolio, per the above. The legacy of strong central planning, state ownership and authoritarian rule still very much prevails. USAID's program focuses on three major pillars of the New Partnership Initiative as a leading Edge Mission - NGOs, small private business development, and democratic local governments. These components will remain core concerns for a stable democracy and free market economy for the foreseeable future. Indeed, our support for grass roots democracy and small enterprise development should now be accelerated and enhanced by the opportunity for rapid structural reform and a more supportive legal/regulatory environment. With more receptivity for reform in the central government, our partners at the grass roots level should be able to flex their new muscles productively in the pursuit of a more participatory democracy and competitive private sector economy.

USAID/BULGARIA
RESULTS REVIEW AND RESOURCE REQUEST
Part II: RESULTS REPORTING BY STRATEGIC OBJECTIVES

**SO 1.1: Increased Transfer of State-Owned Assets to the
Sector**

Private

1. Performance Analysis

Progress toward strategic objective: USAID supports the transfer of public assets to the private sector at both the national and the municipal levels. In late 1996, 968 enterprises out of a total of approximately 3,000 enterprises were auctioned to the private sector in the first wave of mass privatization. Cash privatization accelerated in 1996 when 508 state owned enterprises (SOE) were privatized as compared with a total of 534 SOEs which were sold between 1992 and 1995. Municipal privatization, a banner USAID project, resulted in the transfer of hundreds of small enterprises vastly outpacing in momentum the privatization of larger state enterprises.

Activity Specific Results: By yearend 1996, 5% of SOE assets slated for cash privatization had been sold; slightly less than the target 7% which includes both cash and mass privatizations (SO 1.1 - calculations were made using calendar year information). Had the first-wave mass privatization occurred in September as originally planned, this target would have been met. Instead, it occurred in the third calendar quarter of 1996 when 968 enterprises were auctioned. Two more auctions are planned for the current year; and three under the second wave in 1998. If mass privatization occurs as scheduled, and cash privatization accelerates as is likely due to IMF and World Bank pressure, then the 1997 target (25%) will be achieved.

Mass Privatization. USAID helped the Center for Mass Privatization (CMP) establish the legal and technological framework which was critical to the success of the mass privatization program (MPP). With USAID consultants, the CMP formulated the procedures, established a pricing methodology, audited over 1,000 companies and produced the register of companies which were included in the first auction held in October-December 1996. CMP staff have been trained, and will conduct the subsequent auctions planned for 1997 and 1998. In the first auction, shares in 968 SOEs with a par value of BGL 78 billion (\$195 MM) were offered. Of these, 747 companies auctioned 67% of their shares (75% of the total vs a target 60%, SO 1.1), resulting in 128 full privatizations. With USAID support, the share registries documenting the transfer of ownership have now been placed with the Central Securities Depository (CSD). Establishing the CSD as the sole registry and depository is critical to the integrity of the registries and ultimately Bulgaria's capital market.

Municipal Privatization. USAID developed and implemented a simple and sustainable municipal privatization model which was used in 22 cities (IR 1.2a), resulting in 680 transactions versus a target of 650 (IR 1.2), and generated US \$30 million. All targets (number and value of privatized municipal properties) were exceeded by the time the project terminated on June 30, 1996.

Municipal privatization resulted in the establishment of hundreds of small and medium-sized enterprises serving to promote local economic development. This privatization process has now been replicated in other towns, and has provided impetus for the development of an entrepreneurial middle class, and stronger

more empowered communities.

Capital Markets Initiative. In anticipation of the emergence of many newly private companies resulting from mass, cash and municipal privatization, USAID launched a major initiative in November 1996 to support the formation of Bulgaria's capital market. Although current economic conditions do not favor equity as a source of corporate finance, in 12-18 months the capital market will be a critical source of funding for small, medium and other enterprises.

2. Expected Progress Through FY 99 & Management Actions

Municipal Privatization. This activity is now complete. The replication and demonstration effects, and the level of institutionalization will be assessed and evaluated in mid-1997. No further funding for this activity is requested.

Mass Privatization. No further funding is requested. Other donors, such as the EU-PHARE will, however, provide on-going support to the mass privatization program and the EBRD has proposed plans to establish a post-Privatization Fund.

Capital Markets Initiative. This effort seeks to establish a functioning, secure, effective and transparent capital market which assures the integrity of the privatization process. Despite the current economic crisis, the development of the Central Depository and its role in establishing a viable capital market is critical to long-term private sector growth in Bulgaria. The Central Securities Depository is expected to be fully functioning no later than mid-1998. Assistance to the Securities and Stock Exchange Commission and to the broker/dealer community will help to assure proper regulation and management of the system. Any further assistance for the privatized companies will be provided under SO 1.3: Increased Growth of Private Firms in a Competitive Environment.

3. Performance Data Tables

STRATEGIC OBJECTIVE: 1.1. Increased Transfer of State-Owned Assets to the Private Sector APPROVED: 4/96 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: SO 1.1 Increased Transfer of State-Owned Assets to the Private Sector			
INDICATOR: Percent of assets of state-owned enterprises transferred to the private sector			
UNIT OF MEASURE: percent SOURCE: Official Government Data INDICATOR DESCRIPTION: % of total assets of all state-owned businesses or enterprises. This does not include municipality-owned enterprises or other assets such as land. % is cumulative. <hr/> COMMENTS: The 1996 actual results reflect the outcome of cash privatization under the Privatization Agency and the branch ministries. Results from mass privatization were reported in January 1997 and will be included in the figure for 1997.	YEAR	PLANNED	ACTUAL
	1993 (B)		0.5
	1996	7	5
	1997	25	
	1998	35	
	1999	45	
	2000	55	

STRATEGIC OBJECTIVE: 1.1. Increased Transfer of State-Owned Assets to the Private Sector
APPROVED: 4/96 **COUNTRY/ORGANIZATION:** USAID/Bulgaria

RESULT NAME: SO 1.1 Increased Transfer of State-Owned Assets to the Private Sector

INDICATOR: a. Number of privatized municipal entities; b. Value of privatized municipal entities

UNIT OF MEASURE: a. number; b. value

SOURCE: a. Official Data; b. Contractor's records

INDICATOR DESCRIPTION: a) Includes enterprises or businesses and real estate owned by 22 target municipalities which own significant assets that could be privatized. b) Includes the 22 target municipalities. The value will be reported in million dollars and represents the actual sale price. Reporting for a) and b) is **cumulative**

COMMENTS: The established target for a number of privatized municipal properties was exceeded within the project lifetime.

YEAR	PLANNED	ACTUAL
1993 (B)		a. 53 b:0.1
1996	a. 650 b. 30	a. 680 b. 30
1997	a. 800 b.40	
1998	n/a	
1999	n/a	
2000	n/a	

SO 1.3: Increased Growth of Private Firms in a Competitive Environment

1. Performance Analysis

Progress toward strategic objective: At the SO level, the performance target for private sector contribution to GDP was exceeded: 45% vs. 35% target. However, this apparent success came as a result of the collapse of public sector output which decreased roughly 10%, not because of private sector strength. The extraordinary conditions of the past year threaten economic growth through calendar 1997 and possibly 1998. Support for SMEs remains central to the private sector strategy, but programs such as the Firm Level Assistance Group (FLAG) have been refocused to respond to current conditions, and substantial resources have been reallocated to urgent macro-economic areas, notably bank restructuring.

Activity Specific Results: Firm Level Results. Several programs contribute to SO 1.3, the core of which is FLAG. FLAG draws upon seven organizations with varied expertise. FLAG's Intermediate Results include: the number of business operations strengthened and the number of business linkages formed (IR 1.3.2). These targets were exceeded by 20% and 2% respectively. While commendable, there is a need for greater rigor in monitoring and reporting which FLAG members addressed at the February 1997 retreat. Now, all data is gathered and managed by a single committee thereby assuring the integrity of reported results.

A third FLAG indicator (IR 1.3.2), per cent sales change in assisted firms, could not be calculated with confidence because of hyperinflation which makes comparison of nominal sales data meaningless in the absence of a credible price deflator. FLAG has proposed pegging sales to CPI or PPI. All three IR targets are under review and will be revised during the upcoming Annual Monitoring Review.

Association Strengthening. In FY96, fee-paying membership in target associations increased 18%; well above the target 10%, and associations offered 33 new services against a target of 28 (IR 1.3.2b). Association-building is central to the sustainability of SME development. As such, the development of the Bulgarian Association of Partnerships (BAP), formed in early 1996 by a group of FLAG trainees, is an important success. BAP now counts more than a two hundred dues-paying members. FY97 results should be strong as associations play an ever more important role in representing SMEs.

Legal & Policy Reform. USAID supports legal, policy and regulatory reform under several activities, but the 10 reforms accomplished fell short of the 15 targeted in FY96 because of political upheavals (IR 1.3.3). Nevertheless, ABA/CEELI, IRIS, and the Implementing Policy Change (IPC) project advanced key legal and policy initiatives. Most notably, a Collateral Law was ratified which secures lenders' claims on property in the event of default. On policy and regulatory fronts,

USAID assistance to the energy sector produced tariff and pricing policy reform for electricity and district heat (IR 1.3.3A) which paved the way for structural adjustments in the energy sector. BAP board members, with assistance from ABA/CEELI, are participating on nine drafting committees which are developing or amending the enabling laws for SME development (IR 1.3.3B). Supporting this effort, the IPC coordinator is training BAP's leadership to lobby for essential reforms. In addition, USAID/Bulgaria has allocated \$100,000 from our bilateral budget, plus any additional funds from the Bureau for FY97 and 98 for the Ron Brown Fellowship Program. The Fellowship will target young economic policy-makers and provide them with a one year training program in economic reform at an appropriate U.S. university.

Debt & Equity Finance. USAID has sought to facilitate SME access to equity capital and commercial debt through CARESBAC and BAEF; both of which hit their numeric targets (IR 1.3.1). Commercial lending (debt) fell short of target, but equity investments registered \$5.8 MM vs a target \$5.0 due to several substantial BAEF investment. CARESBAC was constrained by a legal problem through most of 1996. This has now been resolved and CARESBAC resumed investing late in the fiscal year. Its pipeline of target companies is healthy, and CARESBAC's prospects to meet numeric and dollar targets is reasonably good. BAEF, though increasing its equity activity, has seen its portfolio of non-performing SME loans escalate. Consequently, new lending under the Nachala and Kompass programs has been suspended. New loans to exporters and other foreign exchange generating industries are being booked, but are expected to slow substantially in number and dollar value. Although difficult to calculate in a hyper-inflationary environment, CARESBAC estimates that the value of real sales among its equity investees increased on target at 20% in FY96 (IR 1.3.1).

2. Expected Progress Through FY99 & Management Actions

In FY97 and FY98 USAID will emphasize cross sectoral programmatic linkages, particularly those at the local level where reform is supported by SMEs, the NGO community and municipal government. This is fully consistent with USAID/Bulgaria's management contract. Program linkages will be established through coordination among organizations such as FLAG, ABA/CEELI and other USAID initiatives.

In response to the current economic crisis, FLAG has reallocated its TA effort towards exporters in agribusiness, dairy processing, and light manufacturing (currently 40% of the portfolio) and other foreign exchange earners which are positioned to weather the crisis. FLAG will also work with key financial sector firms, privatization funds and financial intermediaries (broker/dealers) which will play an increasing role in mobilizing investment capital. FLAG achieved and exceeded all of its measurable targets in FY96, largely on the strength of momentum carried over from 1995. Criteria for targets and indicators are under review, and changes adding rigor will be made in the summer of 1997. USAID expects that some targets may be missed in FY97 due to protracted economic

and political turmoil.

Based upon needs resulting from the current state of Bulgaria's economy, and the urgent need for TA in bank and enterprise reform, USAID reallocated slightly less than 10% of its SME resources to these areas. This decision was based upon budgetary considerations, and the disproportionate investment of funds in SME development when attention to macro-structural issues is demanded. Rather than reduce FLAG organization budgets proportionately, USAID reduced the line item budget for CDC based upon performance criteria. Although the current investment climate is discouraging, support for CARESBAC was maintained because prior performance suggests that it will play an important role as the economy stabilizes. CARESBAC will be fully funded in FY98.

3. Performance Data Tables

Strategic Objective 1.3: Increased Growth of Private Firms in a Competitive Environment APPROVED: 8/96 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: IR 1.3.2 Private Business Operations Strengthened			
INDICATOR: Number of improved business operations adopted by assisted firms			
UNIT OF MEASURE: Annual number of new/improved operations adopted by assisted firms SOURCE: FLAG activity records - annual reports INDICATOR DESCRIPTION: A business operation that affects a firm's profit/loss. COMMENTS: The business operation target was achieved in FY96 but is under review and will likely change in FY97. New criteria will be developed which add rigor, and will be adopted during the Annual Monitoring Review process.	YEAR	PLANNED	ACTUAL
	1991 (B)	10	0
	1996	499	601
	1997	1015	
	1998 1999 (T)	1317	

Strategic Objective 1.3: Increased Growth of Private Firms in a Competitive Environment APPROVED: 8/96 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: IR 1.3.2 Private Business Operations Strengthened			
INDICATOR: Linkages established by assisted private firms resulting in (contractual) business transactions			
UNIT OF MEASURE: Numbers of new contracts per year SOURCE: Reports of USAID - Assisted Firms INDICATOR DESCRIPTION: Linkages which result in a transaction: e.g.,_licensing, sales, joint ventures, signed contract COMMENTS: FLAG met the linkage target, but as with business operations strengthened, the definition of linkages is being enhanced and strengthened.	YEAR	PLANNED	ACTUAL
	1991 (B)	0	0
	1996	65	66
	1997	135	
	1998 1999 (T)	164 200	

SO 2.1: Increased, Better-Informed Citizens Participation in Public Policy Decision Making

1. Performance Analysis

Progress toward the strategic objective: Grassroots organizations continue to be constrained by a negative legal and policy framework in building their capacity and developing the public's awareness, trust and involvement in their activities. Progress in the area of mass media assistance has been mediocre, as legislative reform for electronic media languished, and efforts to strengthen media associations faltered in the midst of economic collapse and political turmoil.

A first-ever Presidential primary was held with the support of a USAID grantee. A resounding success, it served to unify opposition parties around a single candidate in the ensuing Presidential elections. Voter turnout for Presidential elections (an indicator at the S.O. 2.1 level), rose for the first time in six years, meeting the planned target for 1996.

Activity Specific Results: Democracy Network Program. The Democracy Network Program (DNP) has been slow in achieving results over the past year: only one grant round was completed with 18 indigenous NGOs receiving financial assistance. By the end of FY96, the program has assisted through training and consultations a total of 45 organizations, including the 18 grantees. Experience has shown that local NGOs need extensive guidance and support; including more hands-on training and on-site tailored technical assistance.

All the eighteen first-round grantees reported increased use of public outreach mechanisms as a result of participation in the Democracy Network training modules (IR 2.1.2a). However, monitoring and evaluation of DNP beneficiaries over the past year was insufficient to verify these reported results. Progress measurement against all targets was hindered, as baseline data for the NGO sector was not collected during 1996. Most Democracy Network indicators and targets will be reviewed and finalized in the third quarter of FY97, after the completion of baseline data collection.

Professional Media Program. Progress toward passage of media legislation was mixed. Though a law on electronic media was passed, key portions of it were later declared unconstitutional, a development presaged by criticism from the media sector, the Council of Europe, and a USAID-supported Professional Media Program (ProMedia) critique (IR 2.1.4b).

In the backdrop of the general collapse of the economy, journalists were forced to concentrate on survival strategies, and the momentum, which ProMedia gained in stimulating the development of the promising Association of Private Broadcasters in early fall of 1996, was lost. Staffing issues and the dramatic change in the environment thwarted the development of relevant intermediate results for the media sector. The strategic objective team will refine and finalize

the S.O. 2.1 results framework in the third quarter of FY97.

2. Expected Progress Through FY99 and Management Action:

USAID/Bulgaria will continue to support Bulgarian NGOs, who will continue to advocate for citizens' involvement in public policy decision making through FY99. In FY98 the DNP will further strengthen coalition-building and accountability, provide more tailored technical assistance, as well as intensify fundraising training opportunities for local NGOs. The Democracy Network is moving to be more proactive in stimulating the interaction among NGOs, local governments, private businesses, and the media. The DNP will act as a facilitator of better in-country donor assistance coordination in the NGO sector. Achieving broadbased, sustainable participation in public policy decision making will take years of effort, certainly through the year of 2000 and beyond.

USAID/Bulgaria has planned an evaluation, audit and retreat to improve the Democracy Network Program. The results and recommendations of the evaluation and the RIG audit will be discussed by USAID/Bulgaria, ENI/DGSR, the DNP in-country program staff and ISC's Board of Directors. Corrective measures needed to improve the management and impact of the program will be devised through this process, and an RFA for a follow-on NGO support program will be developed for solicitation this summer. USAID/Bulgaria requests ENI/DGSR participation in the retreat and assistance in developing the RFA. Unobligated DNP funds will be transferred to the successful organization in FY98.

With a new and probably more reform oriented government in place, late FY97 could be an important period for development of democratic media legislation, and FY 1998 will be a critical year for the Professional Media Program. The focus will continue to be on developing strong and professional media trade associations by providing technical assistance and training. The ProMedia Program's impact will be evaluated in FY97. USAID/Bulgaria requests ENI/DGSR ProMedia Project Officer to participate in the program's evaluation. Program extension (through FY99) and future funding will be based on the recommendations of the evaluation.

In light of the currently changing environment, USAID/Bulgaria and its partners will further develop the indicators and targets under SO 2.1 to better address the needs of our clients.

3. Performance Data Tables

Strategic Objective 2.1: Increased, Better-Informed Citizens Participation in Public Policy Decision Making APPROVED: 3/96 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: Increased, Better-Informed Citizens Participation in Public Policy Decision Making			
INDICATOR: Voter turnout			
UNIT OF MEASURE: Percentage SOURCE: Monitoring agencies; Bulgarian Association for Fair Elections and Civic rights Monitoring of Elections' Report INDICATOR DESCRIPTION: Percent of eligible voters voting in presidential and national assembly elections COMMENTS: Per the demand of the public, early government elections will be held in April, 1997. The next municipal elections are tentatively scheduled for late 1998. The next presidential elections will be held in 2001.	YEAR	PLANNED	ACTUAL
	1995(B)		55
	1996	60	61
	1997	60	
	1998	60	
	2001	60	

Strategic Objective 2.1: Increased, Better-Informed Citizens Participation in Public Policy Decision Making APPROVED: 3/96 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: Grassroots Organizations Developed			
INDICATOR: Number of Targeted NGOs Demonstrating Increased Use of Public Outreach Mechanisms			
UNIT OF MEASURE: number - cumulative SOURCE: Democracy Network July - September Quarterly Report INDICATOR DESCRIPTION: Number of NGOs who showed during the year greater use of public outreach mechanisms (i.e., public meetings, media campaigns, newsletters, policy papers, etc.), and made repeated use of more than one outreach mechanism. COMMENTS: *FY 1996 data is available only for the NGO target group (18 Democracy Network-funded NGOs). Baseline data collection for the broad Bulgarian NGO sector will be completed in the second quarter of FY97.	YEAR	PLANNED	ACTUAL
	1996(B)		n/a
	1996(T)	40	*18
	1997(T)	45	
	1998(T)	60	
	1999(T)	60	
	2000(T)	60	

SO 2.3: More Effective and Accountable Local Government

1. Performance Analysis

Progress toward strategic objective: The continuing economic crisis, the lack of adequate authority at the local level, a weak working relationship with the former Socialist central government, a lack of progress in decentralization, and a very difficult legal environment continue to constrain progress toward the strategic objective. On the USAID side, the program has been impacted by procurement delays and inflexible contract vehicles. IQC procurements are taking more than six months, and consequently, have prevented us from implementing a major component on public participation/advocacy which would be particularly timely given the present situation. Furthermore, the lack of baseline data and quantified SO-level targets has hindered measurement of concrete progress at the SO level. Despite these major hurdles, USAID's focused effort on key municipalities and associations is clearly paying off. Measurement of progress can be determined at the intermediate result level.

Activity Specific Results: Local Government Initiative (general). The focus of the Local Government Initiative (LGI) on innovative municipalities has pushed forward results and empowered local governments to take initiative. A national association of mayors was established December, 1996. Targets were met in terms of local government's ability to influence policy-makers on the municipal finance draft law (IR 2.3.1); mayors succeeded in having an unacceptable draft completely rejected. Exceeding the target of three policy positions (IR 2.3.1a), regional associations also were active in lobbying the central government and produced four policy positions in 1996, demonstrating increased organizational capacity among two regional associations. Despite early setbacks, the training activity has exceeded the target in 1996 of "zero," completing two full modules which can now be delivered and sustained by Bulgarian trainers (IR 2.3.2b). In two of the target municipalities, up-to-date civil registry systems are already operational, exceeding the target of one system (IR 2.3.2); other municipalities are already beginning to replicate the initiative.

Targets were not met on average number of public hearings held by LGI pilot municipalities due to the delay in contracting the public participation activity (IR 2.3.2c). Also, the target on number of LGI pilot municipalities with an operational Management Information System was not met since this target was unrealistic given the lengthy procurement procedure for equipment (IR 2.3.2a).

There were problems with integrating the Environmental Action Program Support (EAPS) activity with the LGI. These having been solved, a new concessions law plus lack of progress with the gas pipeline required restructuring of the program in early 1997. The activity is now on course, and may serve as a model for regulating a utility for municipal governments.

Customer feedback. In February 1997, the LGI and USAID held meetings to elicit

feedback from the mayors of the LGI target municipalities. The mayors acknowledged the impact that the LGI has had on the capacity of local government to cope with the lack of support from the central government in dealing with critical problems. USAID/Bulgaria has responded to the issues raised by the mayors.

Public outreach. This area is exceptionally weak in the Bulgarian public sector, a view shared by many of the LGI mayors, and is seen as a critical area for the LGI to address in reaching the strategic objective as well as in building a sustainable democracy.

2. Expected Progress Through FY99 and Management Actions

Through FY99, the LGI will increase assistance targeted on the new national association of mayors and on established regional associations as well as formation of associations of professional municipal staff. The national association should become a key player in influencing legislation and national reform.

The LGI will continue the effective combination of technical assistance with training and small grants. Experience has shown limited results from any of these taken alone, but the combination has created a cadre of local government staff eager to try and implement reforms. A consortium of institutions will provide the sustainable base for offering needed training in developing a cadre of trained local government officials and staff.

During FY97 and FY98, the LGI will start the next phase of reinforcing replication of successful innovations and practices among municipalities. With the start up of the public participation activity, the LGI will be able to identify and be ready to disseminate successful approaches to public participation. By FY99, municipal services should be restructured and increased in capacity to manage the entire process at the local level, following steps by the central government to decentralize authority over these areas. Using Bulgarian expertise, technical assistance and training will continue in more specialized self-help areas, orchestrated through LGI partner institutions, to assist municipalities through the later stages of decentralization. Through developing and transferring the capabilities to LGI partner institutions, municipalities and municipal associations, the LGI assistance will continue after USAID has departed. The Foundation for Local Government Reform (FLGR) is already receiving substantial assistance from European donors and providing information and training to local governments across Bulgaria.

The retreat between LGI contractors, ENI/EEUD and USAID/Bulgaria staff in February discussed the mayors' feedback and established management actions to: 1) approach national reform in a more strategic way by improving coordination between donors (European assistance to Parliament) as well as encouraging leveraging by major players (EBRD, World Bank, etc.); 2) develop a

dissemination strategy and identify the vehicles for replicating successful innovations and practices; 3) move more aggressively in training; and 4) improve linkages with activities under other strategic objectives since interaction between local governments, grass roots NGOs and local business communities is insufficient. To deal with the constraints identified in section 1, we will work with the new national association in developing a workplan for addressing decentralization and national reform.

We plan to review and refine results indicators to better track program progress, particularly given the forthcoming change in the central government operating environment which should be more receptive to decentralization and reform. A baseline data survey is presently being completed which should enable us to establish and improve near-term performance targets, particularly at the SO level.

3. Performance Data Tables (page 1 of 2)

Strategic Objective 2.3: More effective and accountable Local Government APPROVED: 5/95 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: 2.3.1. Improved legal & regulatory framework supports local self-government			
INDICATOR: Legal changes and directives promote independent finance, property and privatization			
UNIT OF MEASURE: SOURCE: Official Government Data INDICATOR DESCRIPTION: Law of Municipal Finance adopted COMMENTS: As financial resources are key to the functioning of any local government, a law on municipal finance provides a core target which we believe can be passed by Parliament in 1998. With the technical assistance of LGI, mayors, as well as the municipal finance work group formed in 1996 by representatives of both local and central government, took policy position on the draft Municipal Finance Act. The arguments of the local officials encouraged the parliament committee to turn back the law for redrafting.	YEAR	PLANNED	ACTUAL
	1995(B)		
	1996	No	Draft Law
	1997	No	
	1998(T)	Yes	

Strategic Objective 2.3: More effective and accountable local government APPROVED: 5/95 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: 2.3.1.a Capacity of local government to lobby central government increased			
INDICATOR: Policy positions publicly taken by municipal associations			
UNIT OF MEASURE: Delivered to central government SOURCE: Contractor's records INDICATOR DESCRIPTION: Policy positions in writing COMMENTS: Signs of lobbying can include: arranging meetings with citizens or government officials to pursue the policy; arranging media coverage, enlisting support of other associations, NGOs or businesses; arranging petitions; obtaining donor support; giving testimony at legislative hearings; taking part in government commissions of inquiry, etc. Municipal associations will play the key role here in providing a unified voice for local government on legal and regulatory reform. One of the policy position papers addressed the new Municipal Property Act, assisted by the LGI and disseminated by the regional associations. Currently the municipal councils are actively implementing the ordinance. Throughout the year, the regional associations took policy positions on the national budget for 1996 and on specific regional issues and infrastructure problems.	YEAR	PLANNED	ACTUAL
	1995(B)		1
	1996	3	4
	1997	6	
	1998	6	
	1999(T)	8	

3. Performance Data Tables (continued)

Strategic Objective 2.3: More effective and accountable local government APPROVED: 5/95 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: 2.3.2.Increased capacity of local government to deliver municipal services			
INDICATOR: More accurate and up-to-date civil registry used in the target municipalities			
UNIT OF MEASURE: Number of target municipalities using more accurate and up-to-date civil registry SOURCE: Contractor's records INDICATOR DESCRIPTION: The provisions of the law for civil registration are met in all target municipalities COMMENTS: Improving the processing time for registration and filing papers with the municipality is a clear means for demonstrating an increase in capacity, particularly given the delays that are incurred with these procedures. In two of the target municipalities, Haskovo and Razgrad, up-to-date civil registry systems are already operational. The replication strategy works and municipalities are already beginning to adapt these successful models.	YEAR	PLANNED	ACTUAL
	1995(B)		0
	1996	1	2
	1997	3	
	1998	5	
	1999	8	
	2000(T)	10	

Strategic Objective 2.3: More effective and accountable local government APPROVED: COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: 2.3.2b. Establish sustainable in-country training capability			
INDICATOR: Training modules are being implemented by Bulgarian institutions			
UNIT OF MEASURE: Number of training modules SOURCE: Contractor's records INDICATOR DESCRIPTION: Public administration modules taught by Bulgarian trainers COMMENTS: A cadre of Bulgarian trainers is already operational. The LGI training component is supporting the development of four training modules in public administration for local government staff. In addition to training Bulgarian trainers, sustainability will be achieved through developing an institutional framework to support the maintenance and development of public administration training. A new delivery order will be aimed to sustaining and institutionalizing the training capability.	YEAR	PLANNED	ACTUAL
	1995(B)		0
	1996	0	2
	1997	4	
	1998	6	
	1999(T)	10	

SO 3.2: Improved Fiscal Sustainability of Social Benefits and Services

1. Performance Analysis

Progress toward strategic objective: In early 1997 industrial actions organized by the three major trade unions greatly contributed to the collapse of the post-Communist government. The labor movement, through which USG programs reach more people than all other programs combined, likely will become an increasing force for modernization.

Activity Specific Results: U.S. Department of Labor (USDOL).

SO 3.2. targets to assist labor market transition have been met. Notable increases were made in improving sustainability impact.

Free Trade Union Institute (FTUI). FTUI achieved exceptional results under its labor education program. Training levels were exceeded twofold; over 300 enterprise level unions negotiated supplementary benefits above the national pattern. These exceptional results were achieved by expanding the base of indigenous trainers, improving cost-sharing, program alignment with the principles of re-engineering, and the development of a strategy for sustainability. FTUI has been rationalizing its expenditures and program focus in Bulgaria, leveraging impact, and establishing better linkages with other USAID programs and donors (PHARE, Friedrich Ebert Stiftung, and the Swiss Labor Confederation, etc.). FTUI has also been able to diversify funding by developing links with other donors, further contributing to the improved fiscal sustainability of social benefits and services.

2. Expected Progress through FY99 and Management Action

By the end of FY99, work done in collaboration with USDOL on all centralized employment service programs will have concluded on schedule and within planned budgets. Work with the National Social Security Institute (NSSI) will conclude in FY2000, although over 70% of the program will be completed by the end of FY98. As a result of USAID's work with the NSSI on actuarial modelling and forecasting, an operational office of the Actuary will be established. This office will permit the long-term forecasting of the social security system's capability to pay benefits, thus contributing to the long-term health of the social sector.

During FY97, FTUI will develop an action plan which fully anticipates completion of USAID funding in FY99. Adherence to the plan will constitute a major activity indicator. During the three phase-out years, FTUI will implement a program which will include: courses on political process, political parties and organizations; closer work with the Movement for Democratic Rights and Freedoms on democracy issues; courses on parliamentary procedures; work with mayors on decision making and transparency (FTUI has already trained 60 mayors); cooperation with the Quick Start employment program; support to the National Social Security Institute's public relations programs; work with private pension funds on supplementary pension schemes; assisting the mass and market privatization process through courses on shares, joint stock companies,

employee buy outs; work with the national tri-partite commission.

3. Performance Data Tables

Strategic Objective 3.2: Improved Fiscal Sustainability of Social benefits and Services APPROVED: 10/96 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: Viable Social security System Established			
INDICATOR: Actuarial capacity increased			
UNIT OF MEASURE: number trained SOURCE: National Social Security Institute INDICATOR DESCRIPTION: Designated staff with abilities in actuarial methods, demographics and actuarial economics COMMENTS: 5 persons were hired in this department, and not 7 as earlier envisaged. All 5 were trained plus one staff from another relevant department.	YEAR	PLANNED	ACTUAL
	1995		
	1996	7	6
	1997		
	1998		

Strategic Objective 3.2: Improved Fiscal Sustainability of Social benefits and Services APPROVED: 10/96 COUNTRY/ORGANIZATION: USAID/Bulgaria			
RESULT NAME: Public education systematically implemented by organized labor			
INDICATOR: Coordinated Education programs for public on commonly shared problems			
UNIT OF MEASURE: number trained SOURCE: FTUI INDICATOR DESCRIPTION: Outreached by government agencies, unions, and NSSI. COMMENTS: The number shows organized workers reached by FTUI alone.	YEAR	PLANNED	ACTUAL
	1995		
	1996	6,000	15,750
	1997		
	1998		

SO 4.1: Special Initiatives

1. Performance Analysis

The **Bulgarian American Enterprise Fund (BAEF)** has been moved under cross-cutting initiatives as it was established as a "Special Initiative" outside of USAID/Bulgaria's R-4 process, and removed from its manageable interest. Through fiscal 1996, BAEF had received nearly \$30 million in SEED funds and had an outstanding portfolio of \$11.5 million.

A major step towards the **American University in Bulgaria's (AUBG)** broad objective of becoming a sustainable liberal arts university was taken in FY96 with the establishment of a "sustainability" Fund of \$14,882,670; the fund-raising progress of the University has conformed with the expectations to date.

Although the **Global Environmental Facility (GEF)** biodiversity program's performance has been poor due to GOB inability to honor its commitments, means have been found to continue productive activity in two areas, national-park level organization, and national coalition building for reform.

A special allocation of \$2.1 million has been made for pharmaceuticals through **Project HOPE** and of \$400,000 for the **Red Cross** to address the humanitarian crisis in Bulgaria.

2. Expected Progress Through FY99 & Management Actions

The 3-year biodiversity program is already well behind schedule, and will not reach its objective in early 1999 as planned. Minimal GOB commitment to the program will likely continue but under the current economic scenario, it is unlikely that adequate GOB funding will be provided to meet planned objectives. There is still an outstanding U.S. commitment under the GEF program of some \$400,000; but this is unlikely to be needed before the 1999 close out of the program. In the fall of 1996, BAEF forecast a significant increase in loan disbursements in FYs 97 and 98, and expected that interest income would support all operating expenses by 1999. These disbursement and income targets will not be met given the extraordinary economic changes that have occurred in the six months through February 1997. BAEF's portfolio of non-performing SME loans under the Nachala and Kompass programs will continue to rise in FY97. Loan losses cannot be estimated accurately at present, but it is likely that Nachala and Kompass lending will remain suspended through 1997. Resources requests for FYs 97 and 98 have been reduced to \$5.15 million, and \$5 million, respectively. In anticipation of economic recovery in the second half of 1998, the resource request for 1999 increases to \$7.5 million. The Fund continues to record high operating expenses relative to drawdown and the outstanding portfolio, and should be subjected to a thorough review of administrative procedures and practices.

The first shipments of emergency pharmaceuticals under Project HOPE are targeted to arrive by the end of March. All initiative objectives should be fully

realized during FY97.

SO 4.2: Cross Cutting Programs

1. Performance Analysis

Participant training procedures have been extensively modified to ensure that the activity clearly and directly supports one or more strategic objectives of the country program. In the past year many of the 60 participants under **PTPE** were trained in small groups identified with an IR. Under **Harvard Institute for International Development (HIID)**, effective demand for environmental financial intermediation has been demonstrated by a few companies, industry groups and municipalities, but national impact is lacking since governmental capacity and commitment are virtually nil. **AE&PS** has been utilized to support program staff and to implement short-term cross-cutting or emergency activities.

2. Expected Progress Through FY99 and Management Actions

USAID/Bulgaria policy mandates consolidated participant programming linked to specific intermediate results within SOs, which sharply increases the potential for synergy among activities. Program impact over time is enhanced as returned participants continue to work together to realize goals shared with or derived from USAID programming. USAID/Bulgaria policy is to support such group efforts through follow-up grants (often from AE&PS) and with technical assistance, in-country workshops, etc. when warranted. Such focussed participant training will continue to receive high priority in mission programming. AE&PS funding will increasingly shift to support for analysis and evaluation of our program, and to facilitating USAID responses to programmatic gaps identified from the unstable political and economic situation in the country.

The HIID activity will augment both the major programs (private enterprise and municipal governance) by increasing local government capacity for revenue self-generation and service delivery (IR 2.3.2), and private companies' abilities to attract private and donor co-financing for environmental investments (IR 1.3.1a).

With improving macroeconomic conditions, the activity will be expected to build the experience needed to demonstrate to the GOB and to donors opportunities in environmental financial intermediation.

Because environmental sector interests in financial intermediation remain poorly defined, the HIID activity has had to work from the bottom up, in the process becoming cross-cutting or supportive to both private business and municipal USAID objectives, so that it has been moved in this R4 from SO 1.3 to SO 4.2. USAID/Bulgaria will directly link performance monitoring plans with the AE&PS procurement plan for better operational efficiency.

USAID/BULGARIA
RESULTS REVIEW AND RESOURCE REQUEST
Part III

A. Status of the Management Contract

No changes to strategic objectives are being proposed. However, two changes in the placement of SO activities are being proposed in order to facilitate comprehensive accounting for impact, as a result of the past year's experience when neither contributed to a strict single objective. No substantive program modifications will result. The two proposed changes are: (a) Move the HIID activity from SO 1.3 to SO 4.2, since the necessity of pursuing a "grass roots" approach has made it equally supportive to both private business and municipal objectives. (b) Move the Bulgarian American Enterprise Fund (BAEF) from SO 1.3 to SO 4.2, since the Fund de facto operates outside of USAID/Bulgaria's management responsibility.

The two proposed shifts in activity placement would significantly modify the activity budgets for FY97 and FY98 (high) as spelled out in the management contract (\$ million):

<u>SO</u>	<u>Management Contract</u>		<u>Current R4</u>	
	FY97	FY98	FY97	FY98
SO1.1	3.00	0	3.00	0
SO1.3	19.95	16.6	11.37*	10.395
SO2.1	1.60	2.0	1.80	2.0
SO2.3	4.00	4.2	5.00	6.0
SO3.2	0.75	0.5	1.25	1.05
SO4.x	1.70	1.7	9.68**	8.555
Total	31.0	25.0	32.10	28.000

* Includes \$100,000 in performance funds.

** Includes \$1 million in performance funds.

Distortion resulting from shifting the BAEF from 1.3 to 4.1 can be readily eliminated through calculating an "adjusted" SO1.3 which always excludes the BAEF:

SO1.3	FY97	FY98
M.C.	9.95	8.700
R4	11.27	9.895

Difference: 1.32 1.195

\$1.2 - \$1.3 million has been shifted into SO1.3 each year. Nearly \$1 million each year has also been shifted into SO2.3, and SO3.2 has been increased by over \$1 million over the two years. These resources - nearly \$5.4 million in two years - have come from allocations to the BAEF, which declined from a two-year total

of \$17.9 million in the March 1996 R4 to the present total of \$10.15. Nearly all the balance of funding released from the BAEF (2 out of 2.35 million dollars) has been allocated to emergency humanitarian relief (\$1.4 million) and bank restructuring (\$1.225 million). USAID/Bulgaria believes that these modifications are entirely consistent with Bulgaria's changed circumstances and do not create long-term activity mortgages. Accelerated funding for the BAEF can be met as country circumstances improve, starting in FY99.

In light of the changing political and financial climate, USAID/Bulgaria plans to place increased emphasis on cross-sectoral programmatic linkages supporting development of the civil society. This is epitomized in the New Partnership Initiatives approach, particularly those linkages at the local level where reform is supported by SMEs, NGOs, organized labor and municipal government.

B. Issues and Concerns:

Carry-over Funding:

Due to a delayed start and slow disbursements (illustrated by target shortfalls and a large and swelling pipeline), we intend to carryover planned FY97 funds for the Democracy Network program for obligation in the first quarter of FY98 to a new, country-specific NGO assistance activity administered by a competitively-selected grantee. USAID/Bulgaria has requested ENI/DGSR assistance in developing the RFA.

Contracting:

More flexible democracy contract vehicles are needed urgently, similar to the RFS mechanism implemented by ENI/EEUD. A new public participation and advocacy activity was designed by ENI to address the weakness in public outreach, but after more than six months, it has yet to be contracted.

USAID/Bulgaria, through RCO/Warsaw, is pursuing direct grants to indigenous LGL partner institutions (e.g., FLGR), municipal associations, and public participation activities since these appear unable to be handled through DG contracting modalities. USAID/Bulgaria strongly supports the Bureau's intent to set-up an RCO office in Budapest.

SO Team Participation:

Team participation is critical to the success of our SOs. ENI/DGSR has been unable to participate fully in field-based exercises, primarily (we believe) because of staffing constraints within the office and their large workload.

USAID/Sofia's growing local government program particularly is requiring a large amount of technical support from ENI/DGSR and ENI/EEUD. In addition, the ProMedia program will be reviewed at the end of FY97, and USAID/Bulgaria requests ENI/DGSR TDY assistance for this activity. We urge that staff resources for DGSR be carefully analyzed against field needs and adjusted as appropriate.

Although team work and support under SO 1.1 and SO 1.3 has been very solid,

USAID/Bulgaria is also concerned by the thinness of ENI/PER technical support. Staff are excellent, but as capital markets work accelerates and banking/enterprise restructuring activities gather momentum, we will need additional support.

Results Monitoring:

USAID/Bulgaria plans to review and refine results indicators to better track program progress, particularly given likely changes in the central government operating environment which should be more receptive to decentralization and reform. USAID/Bulgaria staff resources have been freed up so that more intensive data survey and collection work in support of the results frameworks will be feasible. In particular, USAID/Bulgaria will directly link the Mission's Performance Monitoring Plan with the AE&PS procurement plan for better operational efficiency.

New Management Systems:

Bureau management is well aware of the many challenges posed to orderly implementation by mandated reliance upon an untried, complex new budgeting and obligations software. We would urge management to have in place a plan and methodology to secure these essential functions as the fiscal year draws towards conclusion.

Programming Flexibility:

Ample material to define and illustrate the extraordinary uncertainties affecting Bulgaria's assistance programming are presented in this document. A consistent effort is made to propose a budget to best deal with the uncertainties. An alternative for next fiscal year is prepared to illustrate our best estimate of how the situation will break and, if it does, how to best support the SEED Act goals. However, Bulgaria does present a recent history of promises made and broken in the economic area. The need for caution and flexibility should not be de-emphasized as political decisions unfold over the coming months.

USAID/BULGARIA
RESULTS REVIEW AND RESOURCE REQUEST
Part IV, Section 1
RESOURCE REQUEST BY STRATEGIC OBJECTIVE

Narratives below illustrate the justification for increases or decreases in funding requests. Resource request tables for each SO will follow.

SO 1.3. Resource Request

In response to the current economic environment and the prospective advent of a reform-oriented government, USAID has allocated resources to new initiatives in bank restructuring and enterprise reform and has requested \$1.225 million in FY97 and \$2.725 million in FY98. This work also responds to the need identified in the FY96 management review, and to that which has been expressed by the GOB and donor community. At present, no donor provides ongoing technical assistance in these areas. Assuming GOB progress, additional funds are requested in FY99 and FY2000. In addition to liquidation/sale/restructuring, future bank-sector work could include supervision and regulation. USAID anticipates that support will be necessary to promote the sale and/or liquidation of more than one hundred state-owned enterprises. The GOB is under extreme pressure from the World Bank and IMF to privatize, but it does not have the capacity to do so: USAID/Bulgaria is positioned to respond, if requested to do so, and would work closely with the World Bank, EBRD and EU PHARE. Given the importance of agriculture to Bulgaria, we would expect the Minister of Agriculture to approach us for assistance in the agricultural reform area. USAID/Bulgaria will be prepared to do this pending a review of necessary assistance and agreement on terms and conditions.

In order to further support economic reform, USAID/Bulgaria has decided to participate in the Ron Brown Fellowship Program. Funds have been allocated for FY97 (\$100,000) and FY98 (\$100,000) to send young leaders involved in economic policy making to the U.S. for a one year of training at an appropriate university.

SO 2.1 Resource Request

Both NDI- and IRI-supported activities have achieved their objectives, and no further funding is required for these components, apart from AE&PS support for BAFECR for the elections in April 1997. The FY97 procurement plan did not specify funds for the Professional Media Program. Given the monthly burn-rate and the continuation of the program, USAID/Bulgaria will add \$200,000 in FY97. Funding for the Professional Media Program in FY98 may be affected by the results of the assessment later this year. Due to an extensive pipeline (\$2.2 mil.), USAID/Bulgaria does not wish to obligate planned FY97 funds for the Democracy Network Program until there is an award for the follow-on NGO support program.

The funding level for FY98 represents an increase of \$400,000 over the FY97 OYB

level. The funding level for FY99 should be increased to a level of \$2.9 million so that USAID/Bulgaria can develop a transition strategy to ensure the post graduation sustainability of the NGO and the media sectors.

SO 2.3 Resource Request

Building a sustainable democracy will require sustained funding and support. Additional resources are requested in FY99 to use a direct grant of \$1.2 million to develop an endowment or other vehicle for an indigenous foundation to support local government associations and their activities. Increased need for short-term technical assistance to support both association building and public participation/outreach activities will amount to an additional \$450,000 in FY98. An additional \$200,000 has been added to the Urban Institute contract to provide increased technical assistance as decentralization starts to move forward as well as to provide workshops if there is interest among the Parliament committees overseeing municipal reform. An increase of \$350,000 in the ICMA twinning activity is included to reinforce the replication strategy by supporting the exchange of successful innovative practices between U.S. and Bulgarian municipalities. To support these initiatives, the LGI will need an \$1 million increase in FY98 funds (from \$5 million to \$6 million) and to provide \$6.0 million in FY 1999.

SO 3.2 Resource Request

The 9/30/96 pipeline for the USDOL program was \$1,071,919. In FY97 the USDOL program in Bulgaria is scheduled to receive \$700,000 from USAID. Budget support for the Social Welfare to Employment Program (SWEP) and health financing will be terminated because targets have been met. These programs have achieved a sufficient level of sustainability. The GOB is committed to continue to work independently on a nation-wide basis. In FY98 \$500,000 is proposed to conclude residual work on mass layoff response (\$25,000), provide final funding for NSSI work (\$200,000), and continue implementation of the Quick Start retraining initiative. While FY98 is the last year of funding under the strategic objective, detailed planning of the Quick Start initiative suggests that strong private and public support for the program - with commensurate impact - could lead to an increased FY98 level for this program.

New funding is proposed for FTUI, in order to support the AFL-CIO and NED to assist the Bulgarian labor movement in playing a constructive, supportive role during the next two years when crucial political and economic changes are likely to occur.

SO 4.2 Resource Request

Environmental finance is minimally budgeted and although there is a slight increase to allow for price inflation, any new initiatives will have to be supported under other SOs.

(Resource Request Tables can be found in Annex 1.)

Part IV, Section 2

PRIORITIZATION OF STRATEGIC OBJECTIVES

Standard Agency methodology specifies that operating unit SOs will be ranked by their regional bureaus, with weights assigned according to performance (35%), contribution to Agency goals (30%) and, contribution to development initiatives (35%). While the following remarks are intended to help the ENI Bureau advise Agency management, they do not rigorously follow the Agency weights, but rather the guidance specifically for operating units, namely, "which of your objectives are performing best, which are most important to your unit's overall performance, and which you could not give up without seriously compromising your strategic plan." The guidance states the bottom line as, "the order in which [the operating unit] would curtail or eliminate objectives should resource constraints make this necessary" (emphasis added).

The privatization strategic objective is being eliminated after FY97. Institutional strengthening of that governmental function has been (municipal and mass privatization) or will be (supportive capital market innovations) accomplished for lasting impact. Work with private sector capital market structures will continue under SO1.3.

USAID/Bulgaria would not propose the elimination of any other strategic objective if program resources dropped sharply. Until recently, we would have considered SO 3.2, but the emergence of a labor movement which is moving towards a constructive social role and cooperation among competing factions does increase prospects for good impact from the two activities which depend for success upon organized labor, Quick Start and FTUI. If this recent promise bears up, we propose to continue funding for this SO through 1999.

Similarly, current events suggest that problems inhibiting progress in SO 2.1 are likely to be ameliorated. Both the NGO movement and the media have been severely crippled by the absence of modern legislative frameworks. Recent political developments suggest the reasonable prospect of passage of appropriate legislation in both democracy areas. If so, electronic media promises to be an area where impact in the form of sharp improvement in quality and transparency may be realized most rapidly. The NGO movement also poses potential for rapid development following enactment of good legislation.

If the general political situation does not continue to improve so that the potential of the labor, NGO and electronic media communities can be realized, USAID/Bulgaria would propose the curtailment (2.1) or elimination (3.2) of the SOs.

A deteriorating (as opposed to the presently-improving) long-term environment for development would also lead USAID/ Bulgaria to propose the curtailment or

elimination of our two general policy initiatives, in energy restructuring (SO 1.3) and environmental economics (SO 4.2). If pervasive political manipulation of energy prices continues, neither of these two activities poses realistic prospects for sustainable impact.

SO 1.3 is quite sensitive at the margin to macro-political and economic circumstances. At this time, USAID/Bulgaria has proposed reprogramming to augment this SO (see part III, Management Contract), in order to position USAID to be able to assist a reform government (which is expected to emerge following the April 19 elections) in the urgent but daunting task of economic structural reform. An intensive policy dialogue with both the GOB and key donors will be greatly facilitated by activation of the World Bank proposal to set up coordination councils for structural reforms, whose deliberations should lead to firm program decisions within a few months. If, in fact, the April elections unexpectedly lead to a return to a command-and-control economic team, then a reappraisal of SO 1.3 might result in extensive reprogramming, but such an outcome is not foreseen.

Work under SO 2.3 is not likely to be derailed by short-term trends in economic policy since the program has been operating under a near-worst case scenario with a centralist, socialist government, learning how to make advances even under very difficult circumstances. Recent successes suggest that, even if there were a return to socialist governance, resources for this SO could be well applied for noteworthy impact, since it is securely rooted in Bulgaria's steady development of healthy democratic institutions and practices. It is in this SO that Bulgaria's contrasting record of strong democratic reform and weak economic reform is most apparent, manifested in vigorous but powerless local government. Sustained liberalization of the economy plus implementation of decentralized governance would make possible strong, sustained progress towards realization of the strategic objective. USAID/ Bulgaria has positioned the program to respond quickly should this eventuality be realized.

In summary, a ranking of strategic objectives from highest to lowest, left-to-right, would look as follows:

2.3 1.3 4.2 2.1 3.2

Recent performance under 2.1 has been weak, but has been strong under 3.2. However, grass-roots democracy building under 2.1 lies at the heart of the country strategy. The best prospects for USAID measurably affecting progress towards the strategic objective under 3.2 involve working with organized labor and NGOs, so that a merger of 2.1 and 3.2 may occur in time. "Cross-cutting programs" contribute to all elements of the program so the SO (4.2) is ranked in the middle.

Part IV, Section 3
FIELD SUPPORT REQUIRED FROM USAID/WASHINGTON OFFICES

I. Global Bureau ("Global Field Support" table is attached) -

Under SO 1.3, USAID/Bulgaria plans to complete a buy-in to the Global Bureau's (EG) Implementing Policy Change activity, using FY97 NOA of \$325,000 to support banking sector reform. Approximately \$1 million will be budgeted under a first task order, with follow-on task orders possible in FY 98 and 99. In addition, USAID/Bulgaria plans to make a one-time, \$600,000 buy-in to the Global Bureau's FSDP II activity, using FY97 NOA. Finally, an annual FLAG retreat is planned for February 1998 in Bulgaria. USAID/W SO 1.3 team-member participation is requested.

Under SO4.2, a buy-in of \$1.2 million is anticipated for each of the five years FY97 - FY01 to the Global Training for Development project.

II. Other Washington Offices

Strategic Objective Teams for 1.1, 2.3, 3.2, 4.1 and 4.2 report no known requirements at this time.

For SO 2.1, the current Democracy Network Program Cooperative Agreement will run through February 27, 1998. USAID/Bulgaria considers it important to put in place a follow-on Democracy Network Program, which will better correlate the activities in the NGO sector, media and local government with SO 2.1.

To this end, USAID/Bulgaria requests ENI/DGSR to provide USAID/Bulgaria with the existing civil society RFAs and evaluations in electronic format. An ENI/DGSR Project Officer is requested to visit Bulgaria in early May, 1997 to work with SO 2.1 team to finalize the drafted solicitation documentation. A retreat is planned for April 1997 for the DNP. USAID/W SO 2.1 team-member participation, especially that of ENI/DGSR, is requested.

FY97 is a critical year for the Professional Media program. The ProMedia Program's impact will be evaluated in FY97. USAID/Bulgaria requests a ENI/DGSR ProMedia Project Officer to participate in the program's evaluation. Program extension (through FY99) and future funding will be based on the recommendations of the evaluation.

Under SO 2.3, USAID/Bulgaria requests ENI/DGSR and ENI/EEUD participation in the annual LGI program retreats in Sofia. The SO team will assess program results/lessons learned, focus program strategies and activities, and determine funding requirements and procurement actions at these retreats.

Also under SO 2.3, USAID/Bulgaria is completing a buy-in to the Global Bureau's municipal partnerships contract with ICMA, providing \$350,000 in FY 97 (\$200,000 in FY 96 carryover and \$150,000 in FY 97 NOA) and \$750,000 in FY 98 and 99.

Part IV, Section 4
WORKFORCE AND OPERATING EXPENSES

USAID/Bulgaria does not anticipate any changes in workforce/Operating Expense (OE) requirements as current levels are necessary to meet our objectives.

We expect a large and active portfolio through the R4 period, with no reduction in program resource levels. As the focus shifts to the southern tier countries, and the reform process accelerates in Bulgaria, USAID/Bulgaria will be hard pressed to manage adequately the program with the small staff that was calculated based on a much lower profile program. USAID/Bulgaria requires a full staff complement to implement the program, with no reductions possible until FY2000 at the earliest.

USAID/Bulgaria will not be requesting an increase in OE funding levels for FY98 or FY99 in excess of current FY 97 levels unless some unforeseen programmatic changes take place. OE requirements are higher in 1998/1999 due to ICASS charges.

USAID/Bulgaria can expect mandatory increases in cost related to our ICASS contribution. The increase will not result in a direct impact on mission workforce levels/OE targets as these changes in OE requirements are due to various increased cost in the level of services received. We anticipate an overall increase for the years 1998/1999 at approximately twenty percent. Budget tables can be found in Annex 2.

Part IV, Section 5
ENVIRONMENTAL COMPLIANCE AND ISSUES

The U.S. assistance program in Bulgaria does not include capital project support or provision of infrastructure; consequently, no requirements for IEEs or EAs are anticipated.